

CITY OF MCGREGOR

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2012

CITY OF MCGREGOR
MCGREGOR, IOWA

TABLE OF CONTENTS

| | Page No. |
|--|----------|
| Officials | 3 |
| Independent Auditor's Report | 4-6 |
| Management's Discussion and Analysis | 7-13 |
| Basic Financial Statements: | Exhibit |
| Government-wide Financial Statement: | |
| Statement of Activities and Net Assets- | |
| Cash Basis | A 15-16 |
| Governmental Fund Financial Statement: | |
| Statement of Cash Receipts, Disbursements | |
| and Changes in Cash Balances | B 17-18 |
| Proprietary Fund Financial Statement: | |
| Statement of Cash Receipts, Disbursements | |
| and Changes in Cash Balances | C 19 |
| Notes to Financial Statements | 20-31 |
| Other Information: | |
| Budgetary Comparison Schedule of Receipts, | |
| Disbursements and Changes in Balances- | |
| Budget and Actual (Cash Basis)-All | |
| Governmental Funds, Proprietary Funds | |
| and Component Unit | 33 |
| Notes to Other Information-Budgetary Reporting | 34 |
| Supplementary Information | Schedule |
| Schedule of Cash Receipts, Disbursements and | |
| Changes in Cash Balances-Nonmajor | |
| Governmental Funds | 1 36 |
| Schedule of Cash Receipts, Disbursements | |
| and Changes in Cash Balances-Nonmajor | |
| Proprietary Funds | 2 37 |
| Schedule of Indebtedness | 3 38 |
| Bond and Note Maturities | 4 39 |
| Independent Auditor's Report on Compliance and | |
| on Internal Control over Financial Reporting | 40-42 |
| Schedule of Findings | 43-47 |

CITY OF MCGREGOR
OFFICIALS

| <u>Name</u> | <u>Title</u> (Before January, 2012) | <u>Term Expires</u> |
|------------------------|--|---------------------|
| Gaylinda Hallberg | Mayor | Jan. 2012 |
| Joe Muehlbauer | Mayor Pro tem | Jan. 2012 |
| John Burg | Council Member | Nov. 2011 |
| Rogeta Halvorson | Council Member | Jan. 2012 |
| Jason Bogdonovich | Council Member | Jan. 2014 |
| Joe Collins | Council Member | Jan. 2014 |
| Charles Carroll | Council Member (Elected Nov. 8, 2011) | Jan. 2014 |
| Lynette Sander | City Clerk | Indefinite |
| Mary Guritz | Treasurer | Indefinite |
| Michael Schuster | Attorney | Indefinite |
| (After December, 2012) | | |
| Gaylinda Hallberg | Mayor | Jan. 2014 |
| Joe Muehlbauer | Mayor Pro tem | Jan. 2016 |
| Jason Bogdonovich | Council Member | Jan. 2014 |
| Joe Collins | Council Member | Jan. 2014 |
| Charles Carroll | Council Member | Jan. 2014 |
| Rogeta Halvorson | Council Member | Jan. 2016 |
| Lynette Sander | City Clerk | Indefinite |
| Mary Guritz | Treasurer | Indefinite |
| Michael Schuster | Attorney | Indefinite |

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of McGregor, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of McGregor's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2011.

The financial statements do not include financial data for the City's legally separate component unit, McGregor Municipal Utilities. The basis of accounting described in Note 1 requires the financial data for that component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component unit. The City has not issued such reporting entity financial statements. Because of this departure

from the basis of accounting described in Note 1, the cash basis net assets, receipts, and disbursements of the discretely presented component unit would have been presented as \$ 322,177, \$ 1,283,472 and \$ 1,273,711, respectively.

In our opinion, because of the omission of the discretely presented component unit as discussed above, the financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 1, the cash basis financial position of the discretely presented component unit of the City of McGregor as of June 30, 2012 or the changes in cash basis financial position thereof for the year then ended.

Further, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2011, as discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of McGregor as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 16, 2012 on our consideration of the City of McGregor's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

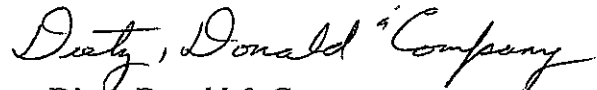
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City's primary government. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the cash balances at July 1, 2011, as it relates to Schedules 1 and 2, as discussed in the third paragraph, is fairly stated in all material

respects in relation to the financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City's primary government. The Management's Discussion and Analysis and budgetary comparison information on pages 7 through 13 and 33 through 34 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance of it.

Elkader, Iowa

November 16, 2012


Dietz, Donald & Company
Certified Public Accountants
FEIN 42-1172392

City of McGregor

'The Original Switzerland of America'



'Pocket City'



*P.O. Box E
'On The Mississippi', McGregor, Iowa*

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of McGregor provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2012 FINANCIAL HIGHLIGHTS

1. The cash basis net assets of the City's governmental activities increased \$ 164,670, due primarily to the \$ 224,000 June 28, 2012 note proceeds not being disbursed before year end.
2. The cash basis net assets of the City's business type activities increased \$ 27,673.

USING THIS REPORT

This report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's long-term debt.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases and decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

1. Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
2. Business Type Activities include the sanitary sewer system, the solid waste collection system, the municipal docks and the storm sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include (1) the General Fund, (2) the Special Revenue Funds, such as Urban Renewal Tax Increment (3) the Debt

Service Fund, (4) the Capital Projects Funds, and (5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the storm water, sewer, solid waste and dock funds. The sewer fund is considered to be a major fund of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased 16.2% from a year ago, increasing from \$ 1,017,841 to \$ 1,182,511. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

| | Years Ended <u>June 30, 2012</u> |
|--------------------------------------|-------------------------------------|
| Receipts | |
| Program receipts | |
| Charges for service | \$ 133,364 |
| Operating grants and contributions | 121,353 |
| Capital grants and contributions | 106,588 |
| General receipts | |
| Property tax | 614,218 |
| Local option taxes | 98,062 |
| Unrestricted interest on investments | 9,352 |
| Note proceeds | 283,000 |
| Other general receipts | <u>44,182</u> |
| Total receipts | <u>1,410,119</u> |

| | |
|--|---------------------|
| Disbursements | |
| Public safety | 117,903 |
| Public works | 225,319 |
| Health and social services | 4,064 |
| Culture and recreation | 145,341 |
| Community and economic development | 166,397 |
| General government | 160,464 |
| Debt service | 231,643 |
| Capital projects | <u>197,318</u> |
| Total disbursements | <u>1,248,449</u> |
| Change in cash basis net assets before transfers | 161,670 |
| Transfers, net | <u>3,000</u> |
| Change in cash basis net assets | 164,670 |
| Cash basis net assets beginning of year | <u>1,017,841</u> |
| Cash basis net assets end of year | <u>\$ 1,182,511</u> |

The cash basis net assets of the City's governmental funds increased due primarily to note proceeds not being disbursed by year end.

The cost of all governmental activities this year was \$ 1,248,449. However, as shown in the Statement of Activities and Net Assets on pages 15-16, the amount taxpayers ultimately financed for these activities was only \$ 887,144 because some of the cost was paid by those directly benefited from the programs (\$ 133,364) or by other governments and organizations that subsidized certain programs with grants and contributions (\$ 227,941). The City paid for the remaining "public benefit" portion of the governmental activities with \$ 712,280 of taxes (some of which could only be used for certain programs) and other receipts, such as interest, note proceeds and other general receipts.

Changes in Cash Basis Net Assets of Business Type Activities

| | |
|---------------------|------------------------------------|
| | Year Ended <u>June 30, 2012</u> |
| Receipts | |
| Program receipts | |
| Charges for service | |
| Sewer | \$ 135,145 |
| Garbage | 81,683 |
| Storm water | 36,689 |
| Docks | 7,700 |

| | |
|--|-------------------|
| General receipts | |
| Unrestricted interest on investments | <u>801</u> |
| Total receipts | <u>262,018</u> |
| Disbursements | |
| Sewer | 133,722 |
| Garbage | 72,384 |
| Storm water | 20,678 |
| Docks | <u>4,561</u> |
| Total disbursements | <u>231,345</u> |
| Change in cash basis net assets before transfers | 30,673 |
| Transfers, net | <u>(3,000)</u> |
| Change in cash basis net assets | 27,673 |
| Cash basis net assets beginning of year | <u>144,686</u> |
| Cash basis net assets end of year | <u>\$ 172,359</u> |

Total business type activities cash basis net assets increased from a year ago, from \$ 144,686 to \$ 172,359.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of McGregor completed the year, its governmental funds reported a combined fund balance of \$ 1,182,511, an increase of \$ 164,670 over last year's total of \$ 1,017,841. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$ 43,792 from the prior year to \$ 613,771 as the City spent approximately \$ 50,000 for street improvements.

The Special Revenue, Urban Renewal Tax Increment Fund had a cash balance of \$ 62,486 at the end of the fiscal year, an increase of \$ 27,925 from the previous year. These funds are to be used for various construction and refurbishing projects within the urban renewal districts, or to retire debt previously acquired to complete past projects within those districts.

The Debt Service Fund had a cash balance of \$ 271,476 at June 30, 2012, an increase of \$ 200,961 from the previous year. This increase was due to \$ 224,000 of note proceeds being received by the fund on June 28 to retire debt in the next fiscal year.

The Capital Projects Fund decreased \$ 7,655 to \$ 53,912 at the end of the fiscal year.

Of the \$ 197,318 disbursed from capital projects, \$ 120,244 was disbursed for a FEMA flood control project.

The Permanent Library Endowment Fund had a cash fund balance of \$ 160,541 at June 30, 2012, a decrease of \$ 131 from the prior year. The fund is used to account for a bequest left to the McGregor Public Library in 1972.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Sewer Fund cash balance increased only \$ 2,101 to \$ 83,472, due primarily to the debt service requirement of \$ 40,715 using most of the net operating receipts.

BUDGETARY HIGHLIGHTS

During the year, the City amended its budget once. The amendment was approved May 23, 2012 and resulted in an increase in operating disbursements of \$ 35,507 and capital projects disbursements of \$ 210,700.

The City exceeded the amounts budgeted in the public works, culture and recreation, community and economic development, general government and business type activities functions.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$ 1,138,000 of bonds and notes outstanding, compared to \$ 1,080,000 last year as shown below.

Outstanding Debt at Year End

| | <u>June 30,</u> | |
|--------------------------|---------------------|------------------|
| | <u>2012</u> | <u>2011</u> |
| General obligation notes | \$ 299,000 | 150,000 |
| General obligation bonds | 520,000 | 620,000 |
| Revenue notes | 285,000 | 310,000 |
| Anticipatory loans | <u>34,000</u> | <u>0</u> |
| Total | <u>\$ 1,138,000</u> | <u>1,080,000</u> |

Debt increased as a result of issuing \$ 224,000 of general obligation notes.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 819,000 is below its

constitutional debt limit of approximately \$ 2.3 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of McGregor's elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates and fees charged for various City activities. One of those factors is City growth. As is typical with most communities in Clayton County, the City has experienced a decline in population. Official population over the last 10 years, however, showed no change, remaining at 871.

However, with an abundance of receipts in the Urban Renewal District, the TIF Fund will continue development projects in the Ohmer property. Regular taxable valuations increased approximately 2.3% or approximately \$ 560,000.

These indicators were taken into account when adopting the budget for fiscal year 2013. Amounts available for appropriation in the operating budget are \$ 4.201 million, an increase of 67% from the final fiscal 2012 budget. Increase in grant proceeds of \$ 1,577,000 accounted for most of the increase. Budgeted disbursements increased by \$ 1,491,000. The City has included a major sewer improvement project in the 2013 budget. Tax rates will increase 4.2%, and with the increase in valuations, property taxes will increase over \$ 26,000. If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$ 82,000 by the close of 2013.

CONTACTING THE CITY'S MANAGEMENT

This financial report is designed to provided our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Lynette Sander, City Clerk; 416 Main Street; PO Box E; McGregor, Iowa 52157 or call 563/873-3795.

BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF MCGREGOR
STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS
As of and for the year Ended June 30, 2012

| Functions/Programs: Governmental Activities: | Disbursements | Program Receipts | | | Net (Disbursements) Receipts and Changes in Cash Basis Net Assets | | |
|---|---------------|------------------------|--|--|--|-----------------------------|-----------|
| | | Charges for Service | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business Type Activities | Total |
| Public safety | \$ 117,903 | 24,303 | - | - | (93,600) | - | (93,600) |
| Public works | 225,319 | 19,118 | 92,262 | - | (113,939) | - | (113,939) |
| Health and social services | 4,064 | - | - | - | (4,064) | - | (4,064) |
| Culture and recreation | 145,341 | 56,178 | 21,268 | - | (67,895) | - | (67,895) |
| Community and economic development | 166,397 | 9,612 | 7,823 | - | (148,962) | - | (148,962) |
| General government | 160,464 | 13,977 | - | - | (146,487) | - | (146,487) |
| Debt service | 231,643 | 5,776 | - | - | (225,867) | - | (225,867) |
| Capital projects | 197,318 | 4,400 | - | 106,588 | (86,330) | - | (86,330) |
| Total governmental activities | 1,248,449 | 133,364 | 121,353 | 106,588 | (887,144) | - | (887,144) |
| Business type activities: | | | | | | | |
| Sewer | 133,722 | 135,145 | - | - | - | 1,423 | 1,423 |
| Other | 97,623 | 126,072 | - | - | - | 28,449 | 28,449 |
| Total business type activities | 231,345 | 261,217 | - | - | - | 29,872 | 29,872 |
| Total | \$ 1,479,794 | 394,581 | 121,353 | 106,588 | (887,144) | 29,872 | (857,272) |
| General Receipts and Transfers: | | | | | | | |
| Property and other city tax levied for: | | | | | | | |
| General purposes | | | | | | | |
| Debt service | | | | | 311,739 | - | 311,739 |
| Tax increment financing | | | | | 64,080 | - | 64,080 |
| Local option sales tax | | | | | 238,399 | - | 238,399 |
| Hotel/motel tax | | | | | 66,985 | - | 66,985 |
| Unrestricted investment income | | | | | 31,077 | - | 31,077 |
| Note proceeds | | | | | 9,352 | 801 | 10,153 |
| Miscellaneous | | | | | 283,000 | - | 283,000 |
| Sale of assets | | | | | 27,632 | - | 27,632 |
| Transfers | | | | | 16,550 | - | 16,550 |
| Total general receipts and transfers | | | | | 3,000 | (3,000) | - |
| Change in cash basis net assets | | | | | 1,051,814 | (2,199) | 1,049,615 |
| Cash basis net assets beginning of year | | | | | 164,670 | 27,673 | 192,343 |
| Cash basis net assets end of year | | | | | 1,017,841 | 144,686 | 1,162,527 |
| | | | | | \$ 1,182,511 | 172,359 | 1,354,870 |

(continued)

CITY OF MCGREGOR
STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS
As of and for the Year Ended June 30, 2012

| | Governmental Activities | Business Type Activities | Total |
|-----------------------------|----------------------------|-----------------------------|-----------|
| Cash Basis Net Assets | | | |
| Restricted: | | | |
| Nonexpendable: | | | |
| Library endowment | \$ 160,540 | - | 160,540 |
| Expendable: | | | |
| Urban renewal projects | 62,486 | - | 62,486 |
| Debt service | 271,476 | 61,540 | 333,016 |
| Capital projects | 53,912 | - | 53,912 |
| Streets | 6,999 | - | 6,999 |
| Other | 13,327 | - | 13,327 |
| Unrestricted | 613,771 | 110,819 | 724,590 |
| Total cash basis net assets | \$ 1,182,511 | 172,359 | 1,354,870 |

See notes to financial statements

Exhibit B

CITY OF MCGREGOR
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2012

| | Special | | Permanent | | | | |
|--|------------|-----------------------------------|-----------------|---------------------|----------------------|----------|-----------|
| | General | Urban Renewal Tax Increment | Debt Service | Capital Projects | Library Endowment | Nonmajor | Total |
| Receipts: | | | | | | | |
| Property tax | \$ 245,543 | - | 64,080 | - | - | 66,196 | 375,819 |
| Tax increment financing | - | 238,399 | - | - | - | - | 238,399 |
| Other city tax | 40,143 | - | - | - | - | 66,985 | 107,128 |
| Licenses and permits | 4,910 | - | - | - | - | - | 4,910 |
| Use of money and property | 28,839 | - | - | 125 | 3,540 | - | 32,504 |
| Intergovernmental | 68,849 | - | - | 106,588 | - | 86,237 | 261,674 |
| Charges for service | 14,786 | - | - | 4,400 | - | - | 19,186 |
| Special assessments | - | - | 5,776 | - | - | - | 5,776 |
| Miscellaneous | 65,173 | - | - | - | - | - | 65,173 |
| Total receipts | 468,243 | 238,399 | 69,856 | 111,113 | 3,540 | 219,418 | 1,110,569 |
| Disbursements: | | | | | | | |
| Operating: | | | | | | | |
| Public safety | 95,682 | - | - | - | - | 22,221 | 117,903 |
| Public works | 112,373 | - | - | - | - | 112,946 | 225,319 |
| Health and social services | 4,064 | - | - | - | - | - | 4,064 |
| Culture and recreation | 136,600 | - | - | - | 3,671 | 5,070 | 145,341 |
| Community and economic development | 93,521 | 71,726 | - | - | - | 1,150 | 166,397 |
| General government | 137,949 | - | 231,643 | - | - | 22,515 | 160,464 |
| Debt service | - | - | - | 197,318 | - | - | 231,643 |
| Capital projects | 580,189 | 71,726 | 231,643 | 197,318 | 3,671 | 163,902 | 1,248,449 |
| Total disbursements | (111,946) | 166,673 | (161,787) | (86,205) | (131) | 55,516 | (137,880) |
| Excess (deficiency) of receipts over (under) disbursements | - | - | 224,000 | 59,000 | - | - | 283,000 |
| Other financing sources (uses): | | | | | | | |
| Note proceeds | - | - | - | 16,550 | - | - | 16,550 |
| Sale of capital assets | 68,154 | - | 138,748 | 3,000 | - | - | 209,902 |
| Operating transfers in | - | (138,748) | - | - | - | (68,154) | (302,550) |
| Operating transfers out | 68,154 | - | - | - | - | - | - |
| Total other financing sources (uses) | (43,792) | 27,925 | 362,748 | 78,550 | - | (68,154) | 164,670 |
| Net change in cash balances | 657,563 | 34,561 | 70,515 | 61,567 | (131) | 32,964 | 1,017,841 |
| Cash balances beginning of year | \$ 613,771 | 62,486 | 271,476 | 53,912 | 160,540 | 20,326 | 1,182,511 |

(continued)

Exhibit B
(continued)

CITY OF MCQUEEN
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2012

| | General | Special | | Debt Service | Capital Projects | Permanent | | Total |
|--------------------------------|------------|-----------------------------|---------|--------------|------------------|-------------------|-----------|---------|
| | | Urban Renewal Tax Increment | Revenue | | | Library Endowment | Nonmajor | |
| Cash Basis Fund Balances | | | | | | | | |
| Nonspendable: | \$ | - | - | - | - | 160,540 | - | 160,540 |
| Library endowment | | | | | | | | |
| Restricted for: | | | | | | | | |
| Urban renewal purposes | | 62,486 | - | - | - | - | - | 62,486 |
| Debt service | | - | 271,476 | - | - | - | - | 271,476 |
| Capital projects | | - | - | - | 53,912 | - | - | 53,912 |
| Streets | | - | - | - | - | - | 6,999 | 6,999 |
| Other | | - | - | - | - | - | 13,327 | 13,327 |
| Committed for: | | | | | | | | |
| Fire truck | | 115,915 | - | - | - | - | - | 115,915 |
| Parks | | 12,983 | - | - | - | - | - | 12,983 |
| Library | | 43,852 | - | - | - | - | - | 43,852 |
| Historic preservation | | 741 | - | - | - | - | - | 741 |
| Unassigned | | 440,280 | - | - | - | - | - | 440,280 |
| Total cash basis fund balances | \$ 613,771 | 62,486 | 271,476 | 53,912 | 160,540 | 20,326 | 1,182,511 | |

See notes to financial statements.

CITY OF MCGREGOR
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2012

| | Enterprise | | |
|--|------------|----------|----------|
| | Sewer | Nonmajor | Total |
| Operating receipts: | | | |
| Charges for service | \$ 135,145 | 126,072 | 261,217 |
| Operating disbursements: | | | |
| Business type activities | 93,007 | 97,623 | 190,630 |
| Excess of operating receipts over operating disbursements | 42,138 | 28,449 | 70,587 |
| Non-operating receipts (disbursements): | | | |
| Interest on investments | 678 | 123 | 801 |
| Debt service | (40,715) | - | (40,715) |
| Net non-operating receipts (disbursements) | (40,037) | 123 | (39,914) |
| Excess of receipts over disbursements | 2,101 | 28,572 | 30,673 |
| Operating transfers out | - | (3,000) | (3,000) |
| Net change in cash balances | 2,101 | 25,572 | 27,673 |
| Cash balance beginning of year | 81,371 | 63,315 | 144,686 |
| Cash balances end of year | \$ 83,472 | 88,887 | 172,359 |
| | | | |
| Cash Basis Fund Balances | | | |
| Restricted: | | | |
| Expendable: | | | |
| Debt service | \$ 61,540 | - | 61,540 |
| Unrestricted | 21,932 | 88,887 | 110,819 |
| Total cash basis fund balances | \$ 83,472 | 88,887 | 172,359 |

See notes to financial statements.

CITY OF MCGREGOR

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

(1) Summary of Significant Accounting Policies

The City of McGregor is a political subdivision of the State of Iowa located in Clayton County. It was first incorporated in 1846 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides sewer and garbage collection services for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of McGregor, Iowa has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and [1] the ability of the City to impose its will on that organization or [2] the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has one component unit which meets the Governmental Accounting Standards Board criteria. However, the financial statements for McGregor Municipal Utilities have not been included with these financial statements. McGregor Municipal Utilities last issued a publicly available financial report that included financial statements and required supplementary information for the fiscal year ended June 30, 2011. That report may be obtained by writing to: McGregor Municipal Utilities; 126 First Street; McGregor, Iowa 52157.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City. City officials are members of the following boards and commissions: Clayton County Assessor's Conference Board, Clayton County Emergency Management Commission, Clayton County Joint E911 Service Board, the Mar-Mac Unified Law Enforcement District and

the Mar-Mac Driftless Area Wetlands Centre. As described in Note 8, the City's participation in the Mar-Mac Unified Law Enforcement District and the Mar-Mac Driftless Area Wetlands Centre meet the criteria of a joint venture since there is an ongoing financial responsibility for the City.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City, except for McGregor Municipal Utilities. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services. Activity between the primary government (the City) and its component unit (the McGregor Municipal Utilities) are reported as if they were external transactions and are classified separately from internal activities within the primary government.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1] charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2] grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for

governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds. All remaining proprietary funds are aggregated and reported as non-major proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Special Revenue, Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for resources used in the acquisition and construction of capital facilities.

The Permanent Library Endowment Fund is used to account for a 1972 bequest left to the McGregor Public Library.

The City reports the following major proprietary fund:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of McGregor maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program.

It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statement, cash basis fund balances are classified as follows:

Nonexpendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling state legislation.

Committed - Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the City Council through resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. The budget document not only presents receipts and disbursements for the primary government (the City), but also the component unit (McGregor Municipal Utilities). During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public works, culture and recreation, community and economic development, general government, and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2012, the City had the following investments:

| Type | Carrying Amount | Fair Value |
|--------------------------|-------------------|----------------|
| Certificates of deposit | \$ 30,635 | 30,077 |
| Schwab Money Market Fund | 18,546 | 18,546 |
| Corporate Stocks | <u>111,359</u> | <u>134,835</u> |
| Total | <u>\$ 160,540</u> | <u>183,458</u> |

The City had three certificates of deposit held in a depositories outside the State of Iowa.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Credit risk - The City's investments in corporate stock are subject to market fluctuations and may be in violation of the Code of Iowa. The City's investment in the Schwab Money Market Fund is unrated.

(3) **Long-Term Debt**

Annual debt service requirements to maturity for general obligation notes and bonds and revenue notes are as follows:

| June 30, | General Obligation Notes | | General Obligation Bonds | | Revenue Notes | | Total | |
|----------|-----------------------------|----------|-----------------------------|----------|------------------|----------|-----------|----------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2013 | \$ 131,000 | 7,370 | 105,000 | 19,772 | 25,000 | 14,165 | 261,000 | 41,307 |
| 2014 | 56,000 | 2,940 | 110,000 | 15,958 | 30,000 | 13,065 | 196,000 | 31,963 |
| 2015 | 56,000 | 1,960 | 110,000 | 11,882 | 30,000 | 11,700 | 196,000 | 25,542 |
| 2016 | 56,000 | 980 | 115,000 | 7,660 | 30,000 | 10,305 | 201,000 | 18,945 |
| 2017 | 0 | 0 | 80,000 | 3,120 | 30,000 | 8,850 | 110,000 | 11,970 |
| 2018-21 | 0 | 0 | 0 | 0 | 140,000 | 18,550 | 140,000 | 18,550 |
| Total | \$ 299,000 | 13,250 | 520,000 | 58,392 | 285,000 | 76,635 | 1,104,000 | 148,277 |

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$ 485,000 in sewer refunding revenue notes issued in August, 2003. Proceeds from the notes provided financing to advance refund the sewer revenue bonds issued May, 1990. The notes are payable from sewer customer net receipts and are payable through 2021. The total principal and interest remaining to be paid on the notes is \$ 361,635. For the current year, principal and interest paid and total customer net receipts were \$ 40,215 and \$ 42,138, respectively.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- A) Notes maturing on or after June 1, 2013 may be called for redemption by the City and paid before maturity on said date or any date thereafter, from any funds, regardless of source in whole or from time to time in part, in any order of maturity and within an annual maturity by lot, at par plus accrued interest to date of call.
- B) Sufficient monthly transfers shall be made to a sewer revenue sinking account within the Enterprise Fund for the purpose of making note principal and interest payments when due.
- C) The notes are secured by the principal and interest reserve account. So long as any notes are outstanding, the City is required to maintain an account on

deposit in the reserve account equal to the lesser of 1) the sum of 10% of the principal amount of the notes; 2) 125% of the average annual debt service on such notes; or 3) the maximum annual debt service on such notes.

The revenue notes were called September 4, 2012.

(4) Development Agreements

The City had entered into agreements with three different developers at June 30, 2012.

With the first , the City has agreed to rebate 60% of the incremental tax paid by the Developer in exchange for the construction of a commercial facility in the McGregor Urban Renewal Area. The incremental tax to be received by the City under 403.19 of the Code of Iowa from the Developer will be rebated in accordance with Chapter 15A of the Code of Iowa. Accordingly, rebate payments will be made on December 1 and June 1 of each fiscal year, beginning December 1, 2008 and continuing through and including June 1, 2018, or until such earlier date upon which total payments in the amount of \$ 100,000 have been made. At June 30, 2012, the City had rebated \$ 43,464 under this agreement.

With the second, the City has agreed to rebate 60% of the incremental tax paid by the Developer, in exchange for the construction of an assisted living facility in the McGregor Urban Renewal Area. The incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the Developer will be rebated in accordance with Chapter 15A of the Code of Iowa. Accordingly, rebate payments will be made on December 1 and June 1 of each fiscal year beginning December 1, 2009 and continuing through and including June 1, 2019 or until such earlier date upon which total payments in the amount of \$ 90,000 have been made. At June 30, 2012, the City had rebated \$ 15,743 under this agreement.

With the third, the City has agreed to rebate 50% of the incremental tax paid by the Developer in exchange for the development of a new commercial restaurant/microbrewery in the McGregor Downtown Urban Renewal Area. The incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the Developer will be rebated in accordance with Chapter 15A of the Code of Iowa. Accordingly, rebate payments will be made on December 1 and June 1 of each fiscal year beginning December 1, 2009 and continuing through June 1, 2024 or until such earlier date upon which total payments in the amount of \$ 200,000 have been made. At June 30, 2012, the City had rebated \$ 20,896 under this agreement.

The total remaining maximum liability under these agreement is \$ 308,897.

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan member and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS; P.O. Box 9117; Des Moines, Iowa 50306-9117

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2012 was \$ 12,303, equal to the required contribution for the year.

(6) Other Postemployment Benefits (OPEB)

The City implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions during the year ended June 30, 2012.

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 2 active members and 1 retired member in the plan. Participants must be age 55 or older at retirement.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$ 950 for family coverage and \$ 576 for single coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$ 26,804 to the plan and plan members eligible for benefits contributed \$ 0 to the plan.

(7) Compensated Absences

City employees accumulate earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. Sick leave accumulates but is not payable upon termination, retirement or death with certain exceptions. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and comp time leave termination payments payable to employees at June 30, 2012, primarily related to the General Fund, is as follows:

| Type of Benefit | Amount |
|-----------------|------------------|
| Vacation | \$ 7,000 |
| Comp time | <u>5,900</u> |
| Total | <u>\$ 12,900</u> |

This liability has been computed based on rates of pay in effect at June 30, 2012.

(8) Joint Ventures

The City participates in a joint law enforcement district known as Mar-Mac Unified Law Enforcement District, which provides police protection and law enforcement services to its participants. The District was created and operates under Chapter 28E of the Code of Iowa. The District is governed by a five member board, two of whom are appointed by the Mayor of McGregor subject to approval by a majority vote of the City Council. In accordance with the 28E Agreement creating the District, the City shall appropriate and pay to the District each fiscal year a sum equal to 35% of the District's budget for the year. The City shall pay to the District one-fourth of the City's share of the budget amount on or before July 10, October 10, January 10, and April 10 each year. The City's share of the District's budget for the fiscal year ended June 30, 2012 was \$ 86,017. The City's share of the District's budget for the fiscal year ended June 30, 2012 will be approximately \$ 93,000. The Mar-Mac Unified Law Enforcement District issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to: Mar-Mac Police District; PO Box 340; McGregor, Iowa 52157-0204.

The City participates in a public agency known as the Mar-Mac Driftless Area Wetlands Centre to provide social, educational and recreational opportunities for area residents, youth and visitors. The functions of the Centre shall include a multi-use community facility and arts venue, a nature center focusing on area ecosystems and a trailhead for area pedestrian and cycling trails. The Agency was created and operates under Chapter 28E of the Code of Iowa. The Agency is governed by a five member board, two of whom are appointed by the Mayor of McGregor subject to approval by a majority vote of the City Council. In accordance with the 28E agreement creating the Agency, the City shall appropriate and pay to the Agency each fiscal year 50% of the Agency's budget for the year to the extent funds are not made available to the Agency from other sources. The City's share of the Agency's budget for the fiscal year ended June 30, 2012 was \$ 7,000.

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|--------------------|-----------------------------|-------------------|
| General | Special Revenue: | |
| | Employee Benefits | \$ 1,169 |
| | Local Options Sales Tax | <u>66,985</u> |
| | | 68,154 |
| Debt Service | Special Revenue: | |
| | Urban Renewal Tax Increment | 138,748 |
| Capital Projects | Enterprise: | |
| | Storm Water | <u>3,000</u> |
| Total | | <u>\$ 209,902</u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(10) Related Party Transactions

The City had business transactions between the City and City officials totaling \$ 93,534 for the year ended June 30, 2012.

The City had the following transactions with its component unit, McGregor Municipal Utilities:

| | |
|------------------------|-------------------|
| Receipts: | |
| Sewer receipts | \$ 135,145 |
| Garbage receipts | 81,683 |
| Storm sewer receipts | 36,689 |
| Street lighting refund | <u>13,528</u> |
| Total | <u>\$ 267,045</u> |
| Disbursements: | |
| Utility payments | \$ 38,114 |
| Other | <u>3,144</u> |
| Total | <u>\$ 41,258</u> |

(11) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks did not exceed commercial insurance coverage for the year ended June 30, 2012.

(12) Contingencies

On February 1, 2001, the City entered into a street usage and maintenance agreement with Agri, Inc. Under the terms of the agreement, the City received a one-time maintenance fee of \$ 250,000. In addition, the City will receive an annual maintenance fee of \$ 4,000 on July 1 of each year until July 1, 2030. In exchange, the City agrees to not close any portion of B Street, from its intersection with Main Street to the Agri Grain Elevator facility to truck traffic (except temporary closures of 120 days or less where an alternate truck route is provided), to not impose weight restrictions or turning restrictions on the B Street Improvement Area that would materially interfere with operations at the Agri Grain Elevator Facility.

In the event Agri, Inc. terminates the agreement, the City may retain all payments received under the agreement. If the City fails to meet the terms of the agreement, the City is required to pay a termination fee calculated as follows. If the termination occurs within the first five years, the termination fee shall be \$ 250,000. Thereafter, the termination fee shall reduce each year by \$ 10,000. At June 30, 2012, the City is contingently liable for \$ 180,000.

(13) Non-cash Transactions

An area hospital contributed the property at 626 Main Street to the City in January, 2008 to be used as a day care facility. The City has entered into a 28E with the local school district to operate a day care facility and preschool at that location. The City will insure the building and pay half of the utilities. Utility and repair disbursements were \$ 2,064 for the fiscal year ended June 30, 2012.

The City traded a 2002 Ford F450 truck for a 2011 Ford F550 truck computed as follows:

| | |
|--|------------------|
| Fair market value 2011 F550 | \$ 49,320 |
| Trade in value allowance for 2002 F450 | <u>(21,022)</u> |
| Cash paid | <u>\$ 28,298</u> |

(14) Subsequent Events

The City redeemed the remaining \$ 75,000 of the October 1, 2002 general obligation notes and the remaining \$ 140,000 of the September 1, 2006 general obligation bonds on July 23, 2012.

The City issued \$ 550,000 of revenue notes on August 6, 2012 and redeemed the remaining \$ 285,000 of the August 1, 2003 revenue notes on September 4, 2012.

OTHER INFORMATION

CITY OF MCGREGOR
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES-
BUDGET AND ACTUAL (CASH BASIS)-ALL GOVERNMENTAL FUNDS, PROPRIETARY FUNDS AND
OTHER INFORMATION
Year Ended June 30, 2012

| | Governmental Funds Actual | Proprietary Funds Actual | Add Amounts for McGregor Municipal Utilities | Total | Budgeted Amounts | Final to Total Variance |
|---|---------------------------------|--------------------------------|---|------------------|------------------|-------------------------------|
| | | | | | Original | Final |
| Receipts: | | | | | | |
| Property tax | \$ 375,819 | - | - | 375,819 | 365,699 | 365,699 |
| Tax increment financing | 238,399 | - | - | 238,399 | 235,604 | 235,604 |
| Other city tax | 107,128 | - | - | 107,128 | 84,801 | 91,444 |
| Licenses and permits | 4,910 | - | - | 4,910 | 5,445 | 5,545 |
| Use of money and property | 32,504 | 801 | 1,745 | 35,050 | 17,000 | 17,000 |
| Intergovernmental | 261,674 | - | - | 261,674 | 160,829 | 319,889 |
| Charges for service | 19,386 | 261,217 | 1,281,727 | 1,562,130 | 1,255,669 | 1,192,823 |
| Special assessments | 5,776 | - | - | 5,776 | 2,500 | 5,776 |
| Miscellaneous | 65,173 | - | - | 65,173 | 11,600 | 42,550 |
| Total receipts | 1,110,569 | 262,018 | 1,283,472 | 2,656,059 | 2,139,147 | 2,276,330 |
| | | | | | | 379,729 |
| Disbursements: | | | | | | |
| Public safety | 117,903 | - | - | 117,903 | 127,514 | 122,514 |
| Public works | 225,319 | - | - | 225,319 | 174,605 | 201,605 |
| Health and social services | 4,064 | - | - | 4,064 | 3,000 | 5,000 |
| Culture and recreation | 145,341 | - | - | 145,341 | 129,533 | 129,533 |
| Community and economic development | 166,397 | - | - | 166,397 | 70,561 | 125,561 |
| General government | 160,464 | - | - | 160,464 | 149,990 | 159,990 |
| Debt service | 231,643 | - | - | 231,643 | 231,663 | 231,663 |
| Capital projects | 197,318 | - | - | 197,318 | 98,851 | 309,551 |
| Business type activities | 231,345 | - | - | 231,345 | 1,196,663 | 1,285,417 |
| Total disbursements | 1,248,449 | 231,345 | 1,273,711 | 2,753,505 | 2,182,380 | 2,570,854 |
| | | | | | | (182,651) |
| Excess (deficiency) of receipts over (under) disbursements | (137,880) | 30,673 | 9,761 | (97,446) | (43,233) | (294,524) |
| Other financing sources, net | 302,550 | (3,000) | - | 299,550 | 75,000 | 109,000 |
| Excess (deficiency) of receipts over (under) financing sources over (under) disbursements and other financing uses | 164,670 | 27,673 | 9,761 | 202,104 | 31,767 | (185,524) |
| Balances beginning of year | 1,017,841 | 144,086 | 312,416 | 1,474,943 | 1,452,019 | 1,452,019 |
| Balances end of year | \$ 1,182,511 | 172,359 | 322,177 | 1,677,047 | 1,483,786 | 1,266,495 |
| | | | | | | 410,552 |

See accompanying independent auditor's report and notes to other information-budgetary reporting.

CITY OF MCGREGOR

Notes to Other Information - Budgetary Reporting

June 30, 2012

The budgetary comparison is presented as Other Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. The City's budget includes its component unit, although the component unit has not been included in these financial statements.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. The nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2012, one budget amendment increased budgeted disbursements by \$ 388,474. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public works, culture and recreation, community and economic development, general government, and business type activities functions.

SUPPLEMENTARY INFORMATION

CITY OF MCGREGOR
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 As of and for the Year Ended June 30, 2012

| | Special Revenue | | | |
|--|--------------------|----------------------|------------------------------|----------|
| | Road Use Tax | Employee Benefits | Local Option Sales Tax | Total |
| Receipts: | | | | |
| Property tax | \$ - | 66,196 | - | 66,196 |
| Other city tax | - | - | 66,985 | 66,985 |
| Intergovernmental | 86,237 | - | - | 86,237 |
| Total receipts | 86,237 | 66,196 | 66,985 | 219,418 |
| Disbursements: | | | | |
| Public safety | - | 22,221 | - | 22,221 |
| Public works | 92,215 | 20,731 | - | 112,946 |
| Culture and recreation | - | 5,070 | - | 5,070 |
| Community and economic development | - | 1,150 | - | 1,150 |
| General government | - | 22,515 | - | 22,515 |
| Total disbursements | 92,215 | 71,687 | - | 163,902 |
| Excess (deficiency) of receipts over (under) disbursements | (5,978) | (5,491) | 66,985 | 55,516 |
| Other financing uses: | | | | |
| Operating transfers out | - | (1,169) | (66,985) | (68,154) |
| Net change in cash balances | (5,978) | (6,660) | - | (12,638) |
| Cash balances beginning of year | 12,977 | 19,987 | - | 32,964 |
| Cash balances end of year | \$ 6,999 | 13,327 | - | 20,326 |
| Cash Basis Fund Balances | | | | |
| Restricted for: | | | | |
| Streets | \$ 6,999 | - | - | 6,999 |
| Other | - | 13,327 | - | 13,327 |
| Total cash basis fund balances | \$ 6,999 | 13,327 | - | 20,326 |

See accompanying independent auditor's report.

CITY OF MCGREGOR
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2012

| | Enterprise | | | |
|--|------------------|----------------|---------------|---------------|
| | Garbage | Storm Water | Docks | Total |
| Operating receipts: | | | | |
| Charges for service | \$ 81,683 | 36,689 | 7,700 | 126,072 |
| Operating disbursements: | | | | |
| Business type activities | 72,384 | 20,678 | 4,561 | 97,623 |
| Excess of operating receipts over operating disbursements | 9,299 | 16,011 | 3,139 | 28,449 |
| Non-operating receipts: | | | | |
| Interest on investments | - | - | 123 | 123 |
| Excess of receipts over disbursements | 9,299 | 16,011 | 3,262 | 28,572 |
| Operating transfers out | - | (3,000) | - | (3,000) |
| Net change in cash balances | 9,299 | 13,011 | 3,262 | 25,572 |
| Cash balances beginning of year | 11,580 | 27,926 | 23,809 | 63,315 |
| Cash balances end of year | <u>\$ 20,879</u> | <u>40,937</u> | <u>27,071</u> | <u>88,887</u> |
| | | | | |
| Cash Basis Fund Balances | | | | |
| Unrestricted | <u>\$ 20,879</u> | <u>40,937</u> | <u>27,071</u> | <u>88,887</u> |

See accompanying independent auditor's report.

Schedule 3

CITY OF MCGRREGOR
 SCHEDULE OF INDEBTEDNESS
 Year Ended June 30, 2012

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued | Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid |
|----------------------------------|---------------|----------------|--------------------------|---------------------------|--------------------|----------------------|---------------------|---------------|
| General obligation notes: | | | | | | | | |
| Corporate purpose | Oct 1, 2002 | 4.50-4.60% | \$ 700,000 | 150,000 | - | 75,000 | 75,000 | 6,825 |
| Corporate purpose | Jun 28, 2012 | 1.75% | 224,000 | - | 224,000 | - | 224,000 | - |
| | | | | \$ 150,000 | 224,000 | 75,000 | 299,000 | 6,825 |
| General obligation bonds: | | | | | | | | |
| Storm sewer | Sep 1, 2006 | 4.20-4.40% | \$ 310,000 | 170,000 | - | 30,000 | 140,000 | 7,315 |
| Corporate purpose | May 15, 2008 | 3.15-3.90 | 605,000 | 450,000 | - | 70,000 | 380,000 | 15,923 |
| | | | | \$ 620,000 | - | 100,000 | 520,000 | 23,238 |
| Revenue notes: | | | | | | | | |
| Sewer refunding | Aug 1, 2003 | 4.20-5.40% | \$ 485,000 | \$ 310,000 | - | 25,000 | 285,000 | 15,215 |
| Anticipatory loans: | | | | | | | | |
| Truck replacement | Nov 14, 2011 | 3.10% | \$ 25,000 | - | 25,000 | 25,000 | - | 278 |
| I & I study | Apr 30, 2012 | 3.00 | 34,000 | - | 34,000 | - | 34,000 | - |
| | | | | \$ - | 59,000 | 25,000 | 34,000 | 278 |

See accompanying independent auditor's report.

CITY OF MCGREGOR
BOND AND NOTE MATURITIES
June 30, 2012

| General Obligation Notes | | | | | |
|----------------------------|--------------------|------------------|---------------------|-------------------|----------------|
| Year Ending June 30, | Corporate Purpose | | Corporate Purpose | | Total |
| | Issued Oct 1, 2002 | | Issued Jun 28, 2012 | | |
| | Interest Rates | Amount | Interest Rates | Amount | |
| 2013 | 4.60% | \$ 75,000 | 1.75% | \$ 56,000 | 131,000 |
| 2014 | | - | 1.75 | 56,000 | 56,000 |
| 2015 | | - | 1.75 | 56,000 | 56,000 |
| 2016 | | - | 1.75 | 56,000 | 56,000 |
| Total | | <u>\$ 75,000</u> | | <u>\$ 224,000</u> | <u>299,000</u> |

| General Obligation Bonds | | | | | |
|----------------------------|---------------------|------------|---------------------|------------|------------|
| Year Ending June 30, | Storm Sewer | | Corporate Purpose | | Total |
| | Issued Sept 1, 2006 | | Issued May 15, 2008 | | |
| | Interest | | Interest | | |
| | Rates | Amount | Rates | Amount | |
| 2013 | 4.25% | \$ 35,000 | 3.30% | \$ 70,000 | 105,000 |
| 2014 | 4.30 | 35,000 | 3.45 | 75,000 | 110,000 |
| 2015 | 4.35 | 35,000 | 3.60 | 75,000 | 110,000 |
| 2016 | 4.40 | 35,000 | 3.75 | 80,000 | 115,000 |
| 2017 | | - | 3.90 | 80,000 | 80,000 |
| Total | | \$ 140,000 | | \$ 380,000 | \$ 520,000 |

| Revenue Notes | | |
|----------------------------|--------------------|-------------------|
| Sewer Refunding | | |
| Year Ending June 30, | Issued Aug 1, 2003 | |
| | Interest | |
| | Rates | Amount |
| 2013 | 4.40% | \$ 25,000 |
| 2014 | 4.55 | 30,000 |
| 2015 | 4.65 | 30,000 |
| 2016 | 4.85 | 30,000 |
| 2017 | 5.00 | 30,000 |
| 2018 | 5.10 | 35,000 |
| 2019 | 5.20 | 35,000 |
| 2020 | 5.30 | 35,000 |
| 2021 | 5.40 | 35,000 |
| Total | | <u>\$ 285,000</u> |

See accompanying independent auditor's report.

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of McGregor, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents and have issued our report thereon dated November 16, 2012. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed an adverse opinion since the financial statements do not include financial data for the City's legally separate component unit. However, we expressed qualified opinions on the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information, since we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2011. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the City of McGregor is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of McGregor's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of McGregor's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of McGregor's internal control

over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency, I-A-12, described in the accompanying Schedule of Findings to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of McGregor's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

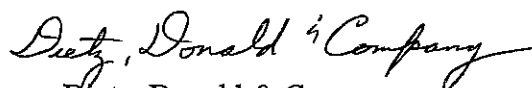
The City of McGregor's responses to findings in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of McGregor's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of McGregor and other parties to whom the City of McGregor may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of McGregor during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

November 16, 2012



Dietz, Donald & Company
Certified Public Accountants
FEIN 42-1172392

CITY OF MCGREGOR
SCHEDULE OF FINDINGS
Year Ended June 30, 2012

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-12 Financial Reporting - As is common in small organizations, the City does not prepare its financial statements, complete with notes, in accordance with U.S. generally accepted accounting principles. Accordingly, the City is unable to, and has not established internal controls over the preparation of financial statements.

Recommendation - As part of the audit, we have been requested to prepare a draft of the City's financial statements, including related notes. The City then performs a review of the financial statements. However, in order to provide improved oversight of the financial reporting process, the City should establish review policies and procedures including the performance of some or all of the following:

- [1] Review the adequacy of financial statement disclosures.
- [2] Review and approve schedule and calculations supporting amounts included in the notes to the financial statements.
- [3] Apply analytical procedures to the draft financial statements.
- [4] Apply other procedures as considered necessary by the City.

Response - We will consider this, however, the City usually prepares a complete set of financial statements once every four years.

Conclusion - Response acknowledged.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

CITY OF MCGREGOR
SCHEDULE OF FINDINGS
Year Ended June 30, 2012

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-12 Certified Budget - Disbursements during the year ended June 30, 2012 exceeded the amount budgeted in the public works, culture and recreation, community and economic development and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - Although the budget was amended, the budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed budget.

Response - In the future we will amend the budget in compliance with the Code of Iowa.

Conclusion - Response accepted.

- II-B-12 Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-C-12 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-12 Business Transactions - Business Transactions between the City and City officials are detailed as follows:

| <u>Name, Title and Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|---|------------------------------------|---------------|
| Gaylinda Hallberg, Mayor Employee of Kwik Trip | Fuel | \$ 6,832 |
| Joe Muehlbauer, Council Member, Employee of O'Reilly Auto Parts | Repair parts | 685 |
| Jason Bogdonovich, Council Member, Police Officer, Mar- Mac Unified Law Enforcement District | Police services | 86,017 |

CITY OF MCGREGOR
SCHEDULE OF FINDINGS
Year Ended June 30, 2012

In accordance with Chapter 362.5(11), the transactions with O'Reilly Auto Parts do not appear to represent a conflict of interest since total transactions with the business were less than \$ 2,500. In accordance with Chapter 362.5(7), the 28E agreement forming the Mar-Mac Unified Law Enforcement District was entered into before Council Member Bogdonovich was elected to the Council. However, the transactions with Kwik Trip may represent a conflict of interest as the transactions do not appear to meet any of the safe harbor provisions of Chapter 362.5.

Recommendation - The City should consult legal counsel to determine disposition of this matter.

Response - We will follow up on this matter.

Conclusion - Response accepted.

II-E-12 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

II-F-12 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-12 Deposits and Investments - The Library Board has invested trust fund money in certificates of deposit held in depositories outside the state. Chapter 12C of the Code of Iowa requires City deposits to be held in depositories located in the county in which the City is located or in an adjoining county, but if there is no depository in the county in which the City is located or in an adjoining county, then in any depository located in the state which shall be selected as a depository by the city council. In addition, the Library Board has invested funds in common stocks. Chapter 12B.10(5) does not include common stocks in its list of allowable investments for political subdivisions of the state.

Recommendation - The City should only make investments allowed by the Code of Iowa.

Response - The City Council will inform the Library Board as to what investments are allowable per the Code of Iowa.

Conclusion - Response accepted

CITY OF MCGREGOR
SCHEDULE OF FINDINGS
Year Ended June 30, 2012

II-H-12 Revenue Notes - No instances of non-compliance with the revenue note resolutions were noted.

II-I-12 Hotel/Motel Tax Receipts - The hotel/motel tax receipts are deposited directly to the General Fund. The 2002 resolution establishing the hotel/motel tax calls for 66 2/3% of the receipts to be used for the acquisition of sites for, or constructing, improving, enlarging, equipping, repairing, operating, or maintaining recreational, convention, cultural or entertainment facilities, including, but not limited to, memorial buildings, halls and monuments, civic centers, convention buildings, auditoriums, coliseums and parking areas or facilities located at these recreational, convention, cultural or entertainment facilities, or the payment of principal and interest on bonds or other evidence of indebtedness issued by the City for those recreational, convention, cultural or entertainment facilities or for the promotion and encouragement of tourist and convention business in the City and surrounding areas. The remaining receipts may be spent by the City for any lawful purpose for which receipts derived from ad valorem taxes may be disbursed. Since the receipts from the hotel/motel taxes are deposited in the General Fund, the City cannot guarantee that these taxes are being disbursed in accordance with voter wishes.

Recommendation - The City should establish a special revenue fund for the hotel/motel tax and make disbursements and transfers from that fund in accordance with the resolution establishing the tax.

Response - The City will investigate this.

Conclusion - Response acknowledged.

II-J-12 Budget Document - The City's published budget includes receipts and disbursements of its component unit, McGregor Municipal Utilities. Although the Council must approve the Utility budget by resolution not later than June 10 in accordance with Chapter 384.2 of the Code of Iowa, it is not required to include the Utility in the City's budget document.

Recommendation - To better clarify the City's budget process, the City should consider deleting the McGregor Municipal Utilities from the City's budget document.

CITY OF MCGREGOR
SCHEDULE OF FINDINGS
Year Ended June 30, 2012

Response - We will consider this.

Conclusion - Response accepted.